

Message Text

UNCLASSIFIED

PAGE 01 STATE 266704

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FEDERAL RESERVE - MR. TERREL (SUB
TREASURY - MR. BLAKE

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TO AMEMBASSY LONDON IMMEDIATE

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SUBJECT: FEDERAL RESERVE PROPOSALS ON FOREIGN BANKING
REGULATION

REF: A) STATE A-8706; B) STATE A-3945; C) STATE A-2302;
D) STATE 53029; E) STATE A-3324; F) BERN 4493(NOTAL)

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 266704

1. FOLLOWING IS A SUMMARY OF THE FEDERAL RESERVE BOARD PRESS RELEASE OF DECEMBER 3 ANNOUNCING THEIR TRANSMITTAL OF PROPOSED LEGISLATION TO ESTABLISH A NATIONAL POLICY ON FOREIGN BANKS OPERATING IN US, AND A SYSTEM OF FEDERAL REGULATION OF THOSE OPERATIONS.

2. THE PROPOSED LEGISLATION WOULD STANDARDIZE THE STATUS OF FOREIGN BANKS, THEIR BRANCHES AND AGENCIES, ON THE BASIS OF NONDISCRIMINATORY NATIONAL TREATMENT, AIMED AT PROVIDING FOREIGN BANKS WITH THE SAME OPPORTUNITIES TO CONDUCT ACTIVITIES IN THIS COUNTRY AS ARE AVAILABLE TO DOMESTIC BANKING AND SUBJECTING THEM TO THE SAME RULES.

3. THE LEGISLATION WOULD ALSO PROVIDE FOR A FEDERAL ROLE IN LICENSING AND SUPERVISING FOREIGN BANK OPERATIONS. THE COMPTROLLER OF THE CURRENCY WOULD ISSUE LICENSES FOR ALL FOREIGN BANKING FACILITIES IN THE UNITED STATES UPON

APPROVAL OF THE SECRETARY OF THE TREASURY. THE COMPTROLLER WOULD ALSO SUPERVISE FOREIGN-OWNED NATIONAL BANKS AND FEDERALLY INSURED BRANCHES OF FOREIGN BANKS. THE FEDERAL RESERVE WOULD EXERCISE SUPERVISORY AUTHORITY UNDER THE FEDERAL RESERVE ACT AND THE BANK HOLDING COMPANY ACT.

4. THE FEDERAL DEPOSIT INSURANCE CORPORATION WOULD BE REQUIRED TO SUBMIT PROPOSALS TO EXTEND ITS DEPOSIT INSURANCE, NOW COVERING SUBSIDIARIES OF FOREIGN BANKS, TO BRANCHES AND AGENCIES.

5. THE MAIN PROVISIONS OF THE PROPOSAL ARE:

A. COVERAGE: THE BANK HOLDING COMPANY ACT WOULD BE REDEFINED TO INCLUDE BRANCHES AND AGENCIES--AS WELL AS SUBSIDIARIES WHICH ARE PRESENTLY COVERED--OF FOREIGN BANKS, BRINGING NEARLY ALL FOREIGN BANKS WITH DEPOSITORY AND LENDING FUNCTIONS IN THE UNITED STATES UNDER THE BANK HOLDING COMPANY ACT.

B. EQUALITY OF TREATMENT: IN ADDITION TO BRINGING VIRTUALLY ALL FOREIGN BANK OPERATIONS IN THE UNITED STATES

UNCLASSIFIED

PAGE 03 STATE 266704

UNDER THE BANK HOLDING COMPANY ACT, EQUALITY OF TREATMENT WITH RESPECT TO DOMESTIC BANKING WOULD BE PROVIDED BY FACILITATING FOREIGN OWNERSHIP OF NATIONAL BANKS, ENABLING LICENSING OF A FEDERALLY CHARTERED BRANCH, PERMITTING FOREIGN BANKS TO OWN EDGE ACT CORPORATIONS, BY REQUIRING FEDERAL RESERVE MEMBERSHIP IN MOST INSTANCES AND BY FDIC INSURANCE OF DEPOSITS IN BRANCHES AND AGENCIES.

C. ENTRY: THE NATIONAL BANKING ACT WOULD BE AMENDED TO PERMIT UP TO HALF OF THE DIRECTORS OF A NATIONAL BANK--ALL OF WHOSE DIRECTORS MUST NOW BE U.S. CITIZENS--TO BE FOREIGNERS. THE COMPTROLLER WOULD ALSO BE EMPOWERED TO LICENSE BRANCHES OF FOREIGN BANKS TO CONDUCT A BANKING BUSINESS IN ANY STATE ON THE SAME BASIS AS A NATIONAL BANK.

D. EDGE CORPORATIONS: THE SECTION OF THE FEDERAL RESERVE ACT DEALING WITH ESTABLISHMENT OF EDGE ACT CORPORATIONS--SUBSIDIARIES OF MEMBER BANKS IN THE UNITED STATES THAT DEAL WITH FOREIGN FINANCIAL TRANSACTIONS--WOULD BE AMENDED TO ALLOW FOREIGN BANKS TO CONDUCT FOREIGN BUSINESS THROUGHOUT THE UNITED STATES ON THE SAME BASIS AS DOMESTIC BANKS, WITHOUT MAJORITY CONTROL BY U.S. CITIZENS.

E. FEDERAL RESERVE MEMBERSHIP: MEMBERSHIP WOULD BE REQUIRED FOR BRANCHES, AGENCIES, AND SUBSIDIARIES OF A

FOREIGN BANK WHERE THE PARENT FOREIGN BANK HAD WORLDWIDE ASSETS EXCEEDING \$500 MILLION.

F. GRANDFATHERING: MULTI-STATE BANKING OPERATIONS OF FOREIGN BANKS, IN OPERATION AS OF THE DATE OF INTRODUCTION OF THE LEGISLATION, WOULD BE PERMANENTLY GRANDFATHERED AND COULD BE EXPANDED WHERE EXISTING, IN ACCORDANCE WITH STATE LAW. NONBANKING INTERESTS OF FOREIGN BANKS COVERED BY THE LEGISLATION WOULD ALSO BE PERMANENTLY GRANDFATHERED IF IN OPERATION AS OF THE DATE OF INTRODUCTION OF THE LEGISLATION. THIS INCLUDES SECURITIES AFFILIATES OF FOREIGN BANKS IN THE UNITED STATES.

6. CHANGES IN BILL HAVE BEEN MADE SINCE REPAIRS. ADMINISTRATION POSITION HAS NOT YET BEEN FORMULATED ON ALL UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 266704

DETAILS OF FED PROPOSAL.

7. FULL PRESS RELEASE, TRANSMITTAL LETTER TO THE SENATE, SECTION BY SECTION ANALYSIS, AND COPY OF BILL WILL BE AIRPOUCHED TO ADDRESSEE POSTS BY DECEMBER 6. IDENTICAL PACKAGE WILL BE SENT UNDER COVER OF A MITCHELL LETTER TO HOST COUNTRY CENTRAL BANK GOVERNORS. KISSINGER

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